

The Formation of Inflation Expectations: Micro-data Evidence from Japan*

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Abstract

Using a large panel dataset in Japan, we examine the formation of inflation expectations by households. It is widely known that the expectation formation of inflation rates are not necessarily rational. Rather, forecasts of inflation rates by households are biased upward. The literature shows that the upward bias is explained by socio-economic factors as well as information rigidities. This study investigates whether not only respondent's attributes but also the hypothesis of stick information determine the bias of households' inflation forecasts. In order to uncover the determinants of the forecast bias, we conduct online survey about inflation outlook to about 50,000 households to collect the data about the inflation outlook and the frequency of updating information about inflation rates. Combining the inflation forecasts with the micro data about consumption, we find that the frequency of processing information about inflation rates and the changes in food prices have the impacts on the forecasts bias.

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Keywords: disagreement; forecast data; forecast bias; inflation expectations;
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